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OPEN MEETING AGENDA ITEM

SOUTHWEST GAS CORPORATION

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AZ CORP COMMISSION
DOCKET CONTROL

April 30, 2014

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007-2996

ORIGINAL

Re: **Docket No. G-01551A-10-0458; Decision No. 72723**

Southwest Gas Corporation (Southwest Gas) hereby submits to the Arizona Corporation Commission (Commission) an original and thirteen (13) copies of its Application for Approval of Energy Efficiency Enabling Provision Rate Adjustment. This Application requests approval to adjust the previously approved rate related to Southwest Gas' revenue decoupling mechanism, the Energy Efficiency Enabling Provision, to reflect 2013 activity.

In addition, pursuant to ordering paragraph #7 of the Commission's Opinion and Order in the above referenced docket, Exhibit 1 of this Application contains Southwest Gas' annual Revenue Decoupling Report covering the period from January 1, 2013 through December 31, 2013.

If you have any questions, please contact me at (702) 876-7163.

Respectfully,

Debra S. Gallo by amg

Debra S. Gallo, Director
Government & State Regulatory Affairs

Arizona Corporation Commission
DOCKETED
APR 30 2014
DOCKETED BY

Enclosures

c Jodi Jerich, ACC
Bob Gray, ACC
Brian Bozzo, ACC Compliance
Patrick Quinn, RUCO

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP – Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

In the Matter of the Application of Southwest Gas Corporation for the Establishment of Just and Reasonable Rates and Charges Designed to Realize a Reasonable Rate of Return on the Fair Value of the Properties of Southwest Gas Corporation Devoted to its Arizona Operations; Approval of Deferred Accounting Orders; and for Approval of an Energy Efficiency and Renewable Energy Resource Technology Portfolio Implementation Plan.	Docket No.: G-01551A-10-0458

APPLICATION FOR APPROVAL OF ENERGY EFFICIENCY ENABLING PROVISION RATE ADJUSTMENT

Introduction

1. Southwest Gas Corporation (Southwest Gas or Company) hereby submits its application to the Arizona Corporation Commission (Commission) respectfully requesting approval to adjust the previously approved rate related to the Company's revenue decoupling mechanism, the Energy Efficiency Enabling Provision (EEP), to reflect 2013 activity.

2. Southwest Gas is a corporation in good standing under the laws of the state of Arizona, is a corporation duly organized, validly existing, and is qualified to transact intrastate business.

3. Southwest Gas' corporate offices are located at 5241 Spring Mountain Road, P. O. Box 98510 Las Vegas, Nevada 89193-8510. Communications regarding this filing should be addressed to:

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4. Southwest Gas is a public utility subject to the jurisdiction of the Commission pursuant to Article XV of the Arizona Constitution and the applicable chapters of Title 40 of the Arizona Revised Statutes (A.R.S.). Southwest Gas currently serves approximately 1.9 million customers in the states of Arizona, California, and Nevada. Approximately 54 percent of the Company's customers are located in the state of Arizona, including portions of Cochise, Gila, Graham, Greenlee, La Paz, Maricopa, Mohave, Pima, Pinal, and Yuma counties. For operational purposes, Southwest Gas' Central Arizona division is headquartered in Phoenix and its Southern Arizona division is headquartered in Tucson.

Background

5. The Commission authorized Southwest Gas to implement full revenue decoupling as part of its 2010 general rate case. The decoupling mechanism, which is referred to by Southwest Gas as the EEP, has two components: 1) a monthly weather component that provides "real-time" bill adjustments when actual weather during the winter months differs from the average weather used to calculate rates; and 2) a non-weather component that adjusts rates on an annual basis to reflect any differences between the Company's authorized revenues per customer and its actual revenues per customer, thereby protecting customers and ensuring that the Company recovers

only its Commission-authorized revenue per customer – no more, no less. It is the second component of the EEP that is the subject of this filing.

6. As part of the approval of the EEP, Southwest Gas agreed to file a report with the Commission in April of each year to provide various details on the EEP's performance.[1] The Company's Revenue Decoupling Report (Report), covering the period from January 1, 2013 through December 31, 2013, is attached hereto as Exhibit 1.

7. Upon its review of the Company's initial report in 2013, the Commission's Utilities Division Staff (Staff) concluded "the revenue decoupling mechanism has accomplished its objectives, including both enhanced revenue stability for the Company and bill stabilization for consumers, as well as removal of disincentives to energy efficiency"[2], and the Commission unanimously approved the Company's 2013 application. As detailed in the accompanying Report, the mechanism continues to perform as intended, and the Company's Arizona customers continue to recognize many EEP-related benefits, including but not limited to bill stability and a revenue ceiling that results in the Company seeking to refund approximately $11.6 million to customers through this Application.

Request to Adjust EEP Rate

8. Southwest Gas hereby requests approval to adjust its EEP rate based upon results for the period January 1, 2013 through December 31, 2013.

9. In 2013, the Company collected more than its authorized revenues, resulting in a credit balance of $11,626,351. The Company therefore seeks to refund this balance to its Arizona customers through a credit rate of $0.02626 per therm. The Company's surcredit calculations are attached hereto as Exhibit 2.

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[1] Settlement Agreement, at §3.23.

[2] Utilities Division, Arizona Corporation Commission, December 3, 2013 Staff Recommendation in the Application for Approval to set Energy Efficiency Enabling Provision Rate (Docket No. G-01551A-10-0458), Page 7

10. The Company respectfully requests that the Commission approve the updated EEP rate at its earliest convenience, such that the credit can be implemented by September 1, 2014, or as soon as otherwise practicable.

11. Although not at issue in the instant Application (because of the surcredit to customers), Southwest Gas agreed to submit an annual earnings test as part of the annual review.[3] As illustrated in the results of the Company's 2013 earnings test, notwithstanding the Company's recovery of its authorized level of revenue per customer through the EEP, it is still not earning its Commission authorized return (primarily due to the continuing upward pressure on the costs of providing safe and reliable natural gas service to customers). A copy of the earnings test is attached hereto as Exhibit 3.

Conclusion

12. Based upon the foregoing, Southwest Gas respectfully requests that the Commission adjust the EEP rate as set forth herein, with an effective date of September 1, 2014, or as soon as otherwise practicable.

Respectfully submitted this 30th day of April 2014.

SOUTHWEST GAS CORPORATION

#028856
FOR

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[3] Settlement Agreement, at §§3.25-3.27.

EXHIBIT 1

SOUTHWEST GAS CORPORATION

Revenue Decoupling Report

Reporting Period:

January 1, 2013 through December 31, 2013

I. INTRODUCTION

Southwest Gas Corporation (Southwest Gas or Company) hereby submits to the Arizona Corporation Commission (Commission) its annual Revenue Decoupling Report (Report). Pursuant to the Settlement Agreement in Southwest Gas' 2010 General Rate Case, which was approved by the Commission in Decision No. 72723 (Decision), the Company agreed to report annually on the effects of its revenue decoupling mechanism, the Energy Efficiency Enabling Provision (EEP).

Southwest Gas' Report covers the period from January 1 through December 31, 2013, and demonstrates that the EEP performed as designed and benefitted customers by stabilizing their monthly bills and ensuring the Company only recovered its authorized revenue. The EEP, which is Arizona's first and, thus far, only full revenue decoupling mechanism performed precisely as the Settlement Parties[1] intended. As a result, Southwest Gas' customers recognized many EEP-related benefits, including but not limited to bill stability and a revenue ceiling that results in the Company refunding approximately $11.6 million to customers.

II. DECOUPLING OVERVIEW

Decoupling (also commonly referred to as "revenue decoupling", "full revenue decoupling", and "revenue per-customer decoupling"), at its highest level, is a rate design methodology that separates a utility's fixed cost recovery from its sales.[2] Decoupled utilities collect revenues according to a predetermined revenue requirement or a revenue per customer established by the governing regulatory body, and utilize an automatic rate adjustment mechanism to periodically reflect the difference between the predetermined revenues and actual revenues.[3] Therefore, unlike more traditional ratemaking, which allows

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[1] In addition to the Company, "Settlement Parties" includes the Arizona Corporation Commission Utilities Division Staff ("Staff"), the Southwest Energy Efficiency Project ("SWEEP"), the Arizona Investment Council ("AIC"), the Natural Resources Defense Council ("NRDC"), and Cynthia Zwick.

[2] *Decoupling for Electric & Gas Utilities: Frequently Asked Questions*, National Association of Regulatory Utility Commissioners (NARUC), Grants & Research Department (Sept. 2007), at p.2.

[3] Id.

utilities to recover their authorized fixed costs based upon sales volumes, decoupling allows utilities to recover their Commission-approved fixed costs irrespective of the volumes sold.[4] The prevalence of decoupled and other non-volumetric rate designs continues to increase in the United States. As noted in **Appendix A**, as of February 2014 gas decoupling is found in 23 states and 53 utilities.[5] There are also multiple states with other types of mechanisms in place that remove the connection between fixed cost recovery and sales.

Decoupling also differs from other rate adjustment mechanisms that are sometimes categorized as "partial decoupling", such as Lost Fixed Cost Recovery (LFCR) mechanisms (also referred to as "net lost revenue recovery", "lost revenue adjustments", and "conservation or load management adjustment clauses"). LFCR mechanisms adjust rates for revenue changes (i.e., losses) that result from conservation and energy efficiency programs and only result in upward adjustments to rates. Conversely, full revenue decoupling adjusts rates for any difference, upward or downward, between authorized and actual revenues, regardless of the cause. Moreover, full revenue decoupling refunds customers for any over-collections, thus completely eliminating the link between sales and revenues.

III. SOUTHWEST GAS' EEP MECHANISM

As noted in the Decision, Southwest Gas had been unable to earn its Commission-authorized rate of return for at least 15 years, primarily because of a continuing trend of declining usage per customer and a dependence on maintaining or increasing throughput to recover its fixed costs. The Commission acknowledged that without recourse, the Company's financial profile could deteriorate, thereby making it more difficult for the Company to finance debt at reasonable rates, and ultimately leading to higher customer rates.[6] Historically, the Company's declining usage was addressed by traditional approaches, such as increased basic

[4] Id. at pg. 4.
[5] AGA, Innovative Rates presentation, February 2014
[6] Id.

service charges and declining block rate structures; however, these approaches were never completely successful in removing the detrimental financial impacts of declining usage.

In its 2010 rate case, Southwest Gas, in cooperation with the other Settlement Parties, was able to craft a decoupling mechanism that was supported by Staff and ultimately approved by the Commission. The resulting EEP mechanism has two components: 1) a weather component, which stabilizes customer bills by providing a "real-time" bill adjustment when actual weather during the winter months differs from the average weather used to calculate rates; and 2) a revenue per customer decoupling component that benefits both customers and the Company by adjusting revenues on an annual basis to reflect any difference between the Company's authorized (non-gas) revenues and its actual (non-gas) revenues, thereby ensuring that the Company recovers only its Commission-authorized revenue – no more, no less.

The EEP also facilitates a partnership between Southwest Gas and its customers by aligning their interests with respect to lowering monthly utility bills. However, the EEP also offers multiple benefits beyond aligning utility and customer interests – some of which are inherent to full revenue decoupling, and others that were incorporated into the mechanism by the Settlement Parties. These benefits include:

Benefits Inherent to Full Revenue Decoupling

- Mechanism with a ceiling and a floor – Company receives its Commission-authorized revenues and provides a refund to customers when it over-collects;
- Enhanced bill stability through less frequent rate cases;
- Enhanced revenue stability, resulting in improved financial health and lower long-term debt costs;
- Administratively and mechanically simple – reduces the frequency of rate cases and does not require lengthy and often contentious hearings to determine lost fixed costs associated with energy efficiency programs.

Benefits Incorporated by the Settling Parties[7]

- Enhanced bill stability through "real-time" bill adjustments during extreme weather events;
- Cap on amounts collected through the surcharge, with no limit on the amounts refunded to customers in the event of an over-collection;
- 5 year stay-out provision which prevents the Company from bringing another rate case until at least April of 2016 as long as the EEP is in place;
- Annual earnings test that prevents the Company from collecting a surcharge if it will result in the Company over-earning;
- Accountability through quarterly and annual reporting requirements;
- Required customer outreach and education.

IV. 2013 EEP RESULTS

As demonstrated below, Southwest Gas customers are realizing many of the benefits of full revenue decoupling, through enhanced bill stability by reducing the frequency of rate cases, by adjusting customer bills to remove the vagaries of abnormal weather, and by preventing Southwest Gas from increasing profits through increased sales. As mentioned previously, the EEP mechanism has two components: 1) an annual component; and 2) a monthly weather component.

Annual Component

The annual component of the EEP adjusts rates on an annual basis such that the Company recovers *only* its authorized revenue per customer. If the Company over-collects, customers receive a refund. Southwest Gas' Arizona customers will experience this benefit - which is unique to full revenue decoupling – as a result of the EEP's performance in 2013. The Company's first annual EEP report for the year ended December 31, 2012, included a customer

[7] In addition to the benefits listed, Southwest Gas and the other Settlement Parties agreed to a 25 basis point reduction in Return on Equity (ROE) as part of the settlement that adopted full revenue decoupling for the Company. There were 3 instances where utilities received 25 basis point ROE reductions in conjunction with the approval of a decoupling mechanism; however, Southwest Gas' was the only case where the ROE reduction resulted from a settlement. *See*, *A Decade of Decoupling for US Energy Utilities: Rate Designs, Impacts, and Observations,* Pamela Morgan (revised February, 2013), at pp. 14-15.

credit of $(0.00387) per therm and was unanimously approved by the Commission as part of the Consent Agenda. Commission staff concluded "the revenue decoupling mechanism has accomplished its objectives, including both enhanced revenue stability for the Company and bill stabilization for consumers, as well as removal of disincentives to energy efficiency."[8] As indicated in the accompanying application, in the period from January 1, 2013 through December 31, 2013, Southwest Gas collected more than its authorized revenues, resulting in a credit balance of approximately $11.6 million. The Company seeks to refund this amount to customers at a credit rate of $(0.02626) per therm.

The credit balance is primarily found within customers on the Single-Family Residential G-5, Medium General Gas Service G-25M and Large 1 General Gas Service G-25L1 rate schedules. The credit balance from G-5 residential customers is approximately 2% of the total Single-Family Residential authorized margin approved in the 2010 rate case. The credit balance from G-25M and G-25L1 customers is approximately 8% of each respective rate schedule's authorized margin approved in the 2010 rate case. The historical volumes used in the 2010 rate case occured during the downturn in the economy. It is reasonable to conclude that subsequent improvements in Arizona's economy, such as a decrease in the unemployment rate from 10.5% to 7.6%, and a 10% rise in employment among the construction and leisure/hospitality industries[9], has led to an increase in customer volumes when compared to 2010. However, regardless of the variations in the average volumes per customer, the Company is only recovering the Commission authorized margin per customer as evidenced in the approximately $11.6 million refund to customers proposed herein.

[8] Utilities Division, Arizona Corporation Commission, December 3, 2013 Staff Recommendation in the Application for Approval to set Energy Efficiency Enabling Provision Rate (Docket No. G-01551A-10-0458), Page 7

[9] Bureau of Labor Statistics, State and Area Employment Data for Arizona

Monthly Weather Adjustment

Although not the subject of the Company's annual decoupling report, the EEP's monthly weather component provides immediate customer relief from high energy bills and an additional layer of revenue stability, by adjusting customer bills during the winter months of November through April when weather conditions are either colder or warmer than normal.[10] A review of customer bill impacts in Arizona during 2013 illustrates the effectiveness of the weather component, including its symmetry and bill stabilization. As indicated in the graph attached as **Appendix B**, April's warmer than normal weather resulted in an upward adjustment to the average residential customer's bill. Conversely, when weather was colder than normal in January, the weather component credited customer bills. The weather component worked to avoid the "peaks and valleys" effect that abnormal weather typically has on customer bills, and instead stabilized bills with moderate upward and downward adjustments.

Cost of Capital

Another benefit of full revenue decoupling is enhanced revenue stability. This contributes to the utility's improved financial health and leads to lower long-term debt costs which, in turn, benefit customers through positive credit ratings and future reduction in debt costs.

Credit ratings play an important role in capital markets by providing an effective and objective tool for market participants to evaluate and assess credit risk. As a result, Southwest Gas' credit ratings are a key factor in determining the required yield on the Company's debt securities and bank facilities, and the amount and terms of available unsecured trade credit. Indeed, decoupled rates, in conjunction with: (1) improved operating results; and (2) an improved capital structure, have resulted in upgrades to Southwest Gas' credit ratings. The

[10] Pursuant to Sections 3.21 and 3.22 of the Settlement Agreement, the Company reports on the EEP's weather component in quarterly reports to the Commission.

table below displays the Company's current unsecured credit ratings compared to the ratings at June 30, 2010 (the end of the test period in the 2010 general rate case).

Rating Agency	Last Change	Current	June 30, 2010
S&P	March 2013	A-	BBB
Moody's	January 2014	A3	Baa2
Fitch	May 2013	A	BBB

In addition, Southwest Gas' decoupled rate designs have been cited by the rating agencies as a positive contributing factor in rating upgrades. In the press release attached hereto as **Appendix C**, Standard & Poor's (S&P) announces the Company's upgrade from BBB+ to A-, and states:

> In our opinion, regulation in Arizona (historically considered one of the less credit-supportive jurisdictions) has improved substantially, as the ACC approved a decoupled rate design in Southwest Gas's latest rate case; this mechanism can significantly mitigate cash flow volatility.[11]

Further, in upgrading Southwest Gas from Baa1 to A3, Moody's also recognized decoupling as rationale for the ratings upgrade attached in **Appendix D**:

> "The company now has some form of de-coupling and gas purchase adjustment mechanism in all three of its service territories, which will contribute towards sustained financial performances over the next several years."[12]

A utility's regulatory environment is another key factor in its credit ratings. In order to gauge the level of regulatory risk for a utility and assess regulatory jurisdictions on a relative basis, S&P evaluates the relative credit supportiveness of regulatory jurisdictions based on quantitative and qualitative ratemaking factors that focus on four main categories: (1) the stability of the basic regulatory paradigm employed in the jurisdiction; (2) tariff-setting procedures; (3) financial stability; and (4) the political independence of the regulator.[13] S&P then classifies each jurisdiction into one of five categories: (1) Strong; (2) Strong/Adequate; (3)

[11] Standard & Poor's, *Research Update: Southwest Gas Corp. Corporate Credit Rating Raised to 'A-' On Effective Management; Outlook Stable*, March 19, 2013, p.2.

[12] Moody's Investors Service, *Rating Action: Moody's Upgrades Southwest Gas; Outlook Stable,* January 31, 2014, p.1

[13] Standard & Poor's RatingsDirect, *Utility Regulatory Assessments For U.S. Investor-Owned Utilities*, January 7, 2014.

Adequate; (4) Adequate/Weak; and (5) Weak. In its January 2014 update of regulatory assessments, a copy of which is attached as **Appendix E**, S&P listed Arizona's regulatory jurisdiction as Strong/Adequate.

Moody's also cited the improved regulatory environment in Arizona for Southwest Gas due to the approval of decoupling, stating:

> On December 31, 2011, the Arizona Corporation Commission authorized a $53 million rate increase (12.8%) and a full revenue decoupling mechanism in Arizona. We view the outcome of the [sic] this case positively from a credit perspective.[14]

<u>Energy Efficiency</u>

Southwest Gas is focused on prudently and gradually increasing its energy efficiency spending. The most recent Energy Efficiency and Renewable Energy Resource Technology Portfolio Implementation Plan (EE/RET Plan) approved by the Commission authorized an annual budget of $4.7 million,[15] with an average cost to customers of approximately $0.25 per month. Southwest Gas has prudently managed the approved budget, and is aggressively promoting energy efficiency programs that are both cost-effective and responsive to market demands. As a result, in Year 1 of its EE/RET Plan,[16] the Company expended approximately $4.4M of its approved $4.7M budget and achieved 3,146,127 annual therm savings. In the first seven months of Year 2, the Company is on pace to achieve the approved $4.7M budget.[17]

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[14] Moody's Investors Service, *Rating Action: Moody's upgrades Southwest Gas; Outlook Stable*, January 31, 2014, p. 1.

[15] In Decision Nos. 73231 and 73229, the Commission approved an annual DSM budget of $4.7 million for Plan Year 1 with projected annual program savings of 1.4 million therms. The $4.7 million budget was continued for Plan Year 2.

[16] The Year 1 Plan was effective June 1, 2012 through May 31, 2013.

[17] Plan Year 2 is effective June 1, 2013 through May 31, 2014.

V. Additional Information Required by Settlement Agreement

Section 3.23 of the Settlement Agreement requires Southwest Gas to address various factors related to the EEP's revenue decoupling component in its annual report. Several of those items are addressed below.[18]

<u>Customer Complaints Resulting From or Associated With Decoupling</u>

Southwest Gas provided service to over 1 million customers on decoupled rate schedules in 2013. In that same time frame, Southwest Gas did not receive any complaints regarding the annual decoupling component of the EEP. During 2013, the Company received 6 billing-related inquiries where its customer service representatives explained, among other things, how the monthly weather component of the EEP affects customer bills. The Company considered each complaint to be very high priority, and when further explanation was necessary, a senior member of its Pricing and Tariffs Department contacted the customer personally to ensure their concerns were fully addressed.

<u>Usage/Usage Per Customer Differences Between New and Existing Customers</u>

The information attached as **Appendix F** displays the usage per customer (UPC) for residential customers initiating service during 2011 and 2012 (the most recent years for which a full twelve-months of data is available), and those initiating service between 2001-2010; 1991-2000; 1981-1990; 1971-1980; and prior to 1971. **Appendix F** also includes a comparison of the recorded and weather-adjusted monthly UPC for customers initiating service in 2011 and 2012, and those initiating service prior to 2011. This data indicates that, in general, new customer UPC is less than it has been historically.

[18] The Company discusses other items listed in Section 3.23 of the Settlement Agreement, such as the removal of disincentives to energy efficiency and compliance with the EE Rules, in Section IV of this Report.

Overall Customer Usage, UPC, and Customer Growth per Class on a Pre- and Post-Decoupling Basis

Southwest Gas analyzed the changes in recorded number of customers and recorded volumes on a pre- and post-decoupling basis, for those rate schedules included in the EEP. The two time periods analyzed were 2009-2011 for pre-decoupling and 2012-2013 for post-decoupling. The total recorded average changes in overall customer usage, customer volume and UPC are summarized in the table below.

	Residential	Non-Residential
Volume		
Pre-Decoupling	282,066,888	184,152,790
Post-Decoupling	287,560,061	182,570,202
Change	5,493,173	(1,582,589)
Customers		
Pre-Decoupling	945,342	39,844
Post-Decoupling	968,880	39,416
Change	23,538	(428)
UPC		
Pre-Decoupling	298.4	4,621.9
Post-Decoupling	296.8	4,631.9
Change	(1.6)	10.0

In addition, actual and weather normalized UPC for Southwest Gas' single-family residential customers for the ten-year period from 2003 through 2013 is attached as **Appendix G**. This data shows a trend of declining UPC over the period for residential customers, the Company's largest customer class.

Customer Migration

No Southwest Gas customers have migrated (i.e. elected to move) from a decoupled rate schedule to a non-decoupled schedule. The Company's non-decoupled rate schedules, with only one exception (the Company's rate Schedule No. G-25 – Transportation Eligible), either require the customer to install and operate a specific natural gas appliance, or are closed to service to new customers. Southwest Gas is not aware of any customers that converted to non-gas energy service.

Support for New Customer Growth Including the Encouragement of New and Economic Uses of Natural Gas

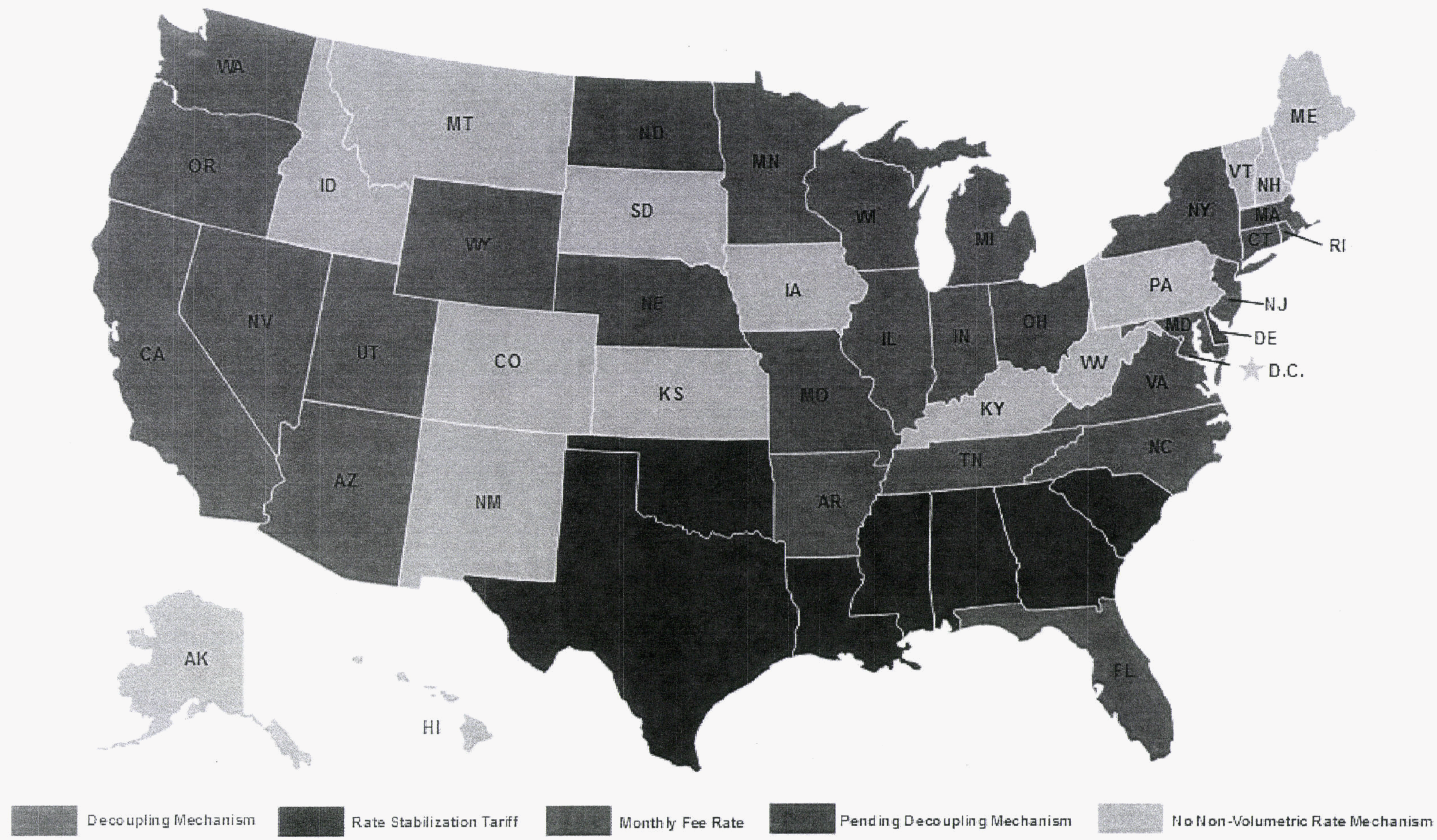
Southwest Gas continues to support new economic uses of natural gas and opportunities for new customer growth. For example, the Company continues to evaluate proposals for multi-family residential DSM programs, as it believes greater utilization of natural gas in the multi-family market will result in greater overall energy efficiency for all Arizona customers. The Company is also engaged in studying the use of liquefied natural gas (LNG) and compressed natural gas (CNG) for use as a motor fuel for long-haul trucking and other commercial applications.

VI. CONCLUSION

In its analysis on the Company's 2012 EEP Annual Report, Commission Staff concluded "the revenue decoupling mechanism has accomplished its objectives, including both enhanced revenue stability for the Company and bill stabilization for consumers, as well as removal of disincentives to energy efficiency." Subsequently, the 2012 report was unanimously approved by the Commission. As demonstrated by the information contained in this Report, customers continue to benefit from the Commission's decision to implement the EEP and the full revenue decoupling is functioning as the Commission and the Settlement Parties intended and customers continue to benefit from enhanced bill stability by reducing the frequency of rate cases, by adjusting customer bills to remove the vagaries of abnormal weather, and by preventing Southwest Gas from increasing profits through increased sales. The Company therefore concludes that the EEP remains in the public interest, and no good cause exists to suspend, terminate or modify the mechanism and the EEP should be continued in its current form.

APPENDIX A

States with Non-Volumetric Rate Designs



Utilities with Approved Decoupling Mechanisms

1. AR – Arkansas Oklahoma
2. AR – SourceGas
3. AR – CenterPoint Energy
4. AZ – Southwest Gas
5. AZ – UNS Gas
6. CA – Pacific Gas and Electric
7. CA – San Diego Gas and Electric
8. CA – Southern California Gas
9. CA – Southwest Gas
10. CT – Connecticut Natural Gas
11. GA – Liberty Utilities
12. IL – Peoples Gas
13. IL – North Shore Gas
14. IN- Citizens Energy Group
15. IN – Vectren North Indiana Gas
16. IN – Vectren South SIGECO
17. MA – Columbia Gas of Massachusetts
18. MA – Fitchburg Gas and Electric
19. MA – National Grid Massachusetts
20. MA – Liberty Utilities
21. MD – Baltimore Gas and Electric
22. MD – Columbia Gas of Maryland
23. MD – Washington Gas
24. MI – Michigan Consolidated Gas
25. MI – Michigan Gas Utilities
26. MN – Minnesota Energy Resources
27. NC – Piedmont Natural Gas
28. NC – Public Service Company of North Carolina
29. NJ – New Jersey Natural Gas
30. NJ – South Jersey Gas
31. NV – Southwest Gas
32. NY – Corning Natural Gas
33. NY – National Grid NYC
34. NY – National Grid Long Island
35. NY – National Grid Niagara Mohawk
36. NY – National Fuel Distribution
37. NY – New York State Electric and Gas
38. NY – Orange and Rockland
39. NY – Rochester Gas and Electric
40. NY – Central Hudson Gas and Electric
41. OR – Cascade Natural Gas
42. OR – Northwest Natural Gas
43. RI – National Grid Narragansett
44. TN – Chattanooga Gas
45. UT – Questar Gas
46. VA – Columbia Gas of Virginia
47. VA – Virginia Natural Gas
48. VA – Washington Gas
49. WA – Avista Corp.
50. WA – Puget Sound Energy
51. WI – Wisconsin Public Service Co.
52. WY – SourceGas
53. WY – Questar Gas

Pending Mechanisms

1. DE – Delmarva Power and Light

Utilities with Flat Monthly Fee Rate Designs (SFV)

Approved SFV

1. GA – Atlanta Gas Light – Individually determined monthly demand charge
2. MO – Missouri Gas Energy – Flat monthly fee
3. ND – Xcel Energy – Flat monthly fee
4. OH – Columbia Gas of Ohio – Flat monthly fee
5. OH – Dominion East Ohio – Flat monthly fee
6. OH – Duke Energy – Flat monthly fee
7. OH – Vectren Ohio – Flat monthly fee

Similar to SFV

1. FL – TECO Peoples Gas – Three-tier monthly charge plus a small variable charge
2. IL - Ameren Illinois – 80% revenue for Residential and Small GS Customers per flat fee plus small variable charge
3. IL – Nicor Gas – Flat fee plus a small variable charge
4. MO – Ameren – Modified rate blocks for Residential Service customers
5. MO – Liberty Utilities – Flat fee plus a small variable charge
6. MO – Laclede Gas – Modified rate blocks
7. NE – Black Hills – Declining rate blocks
8. NE – SourceGas – Modified rate blocks
9. OK – Oklahoma Natural Gas – Two-tier plan – Offers customers a choice
10. TX – Texas Gas Service – Flat fee up to 200 ccf/month

Pending

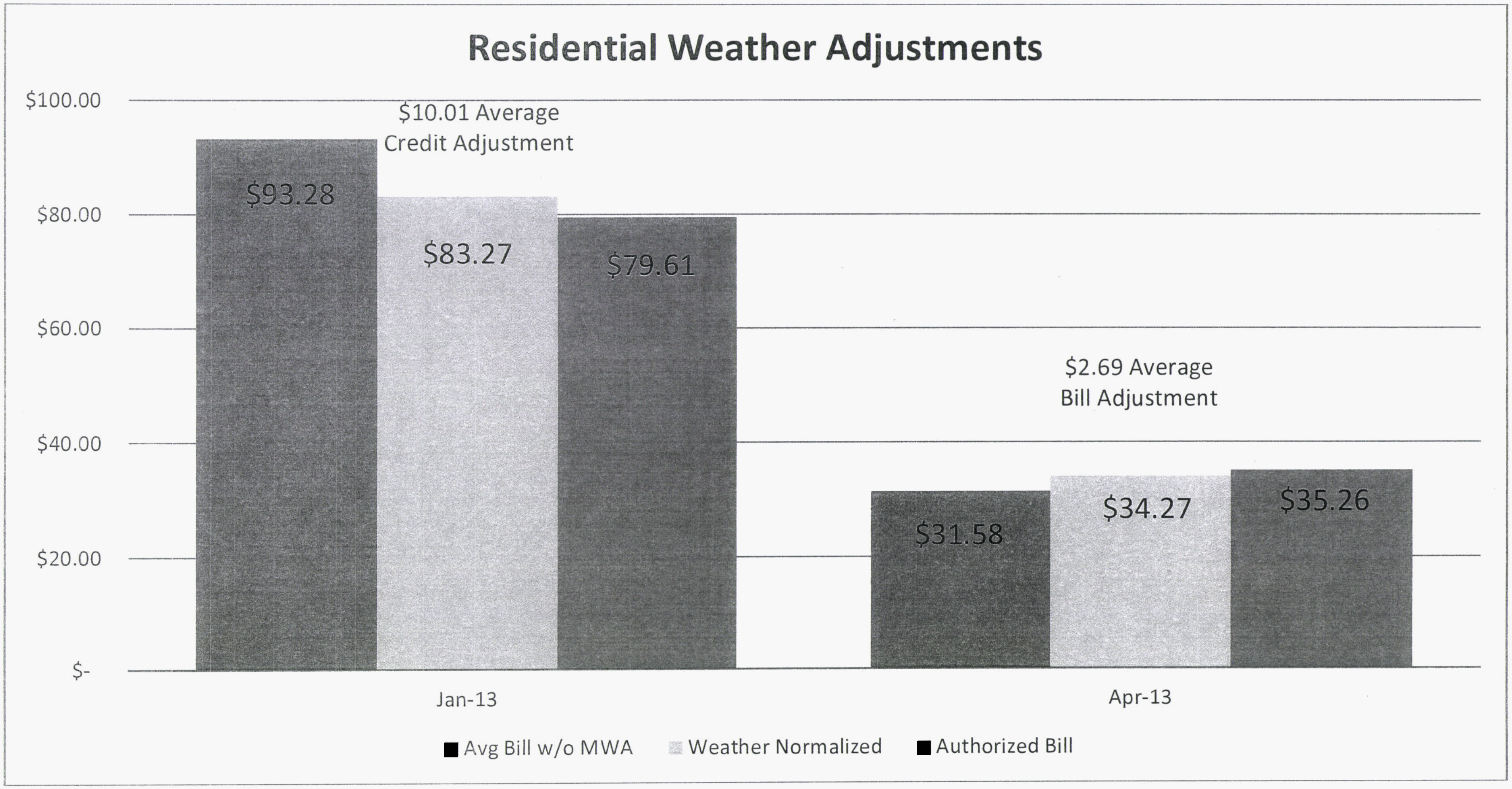
1. DE – Delmarva Power and Light
2. ND – Montana-Dakota Utilities

Current Status of Rate Stabilization Tariffs

Approved

1. AL – Alabama Gas
2. AL – Mobile Gas
3. GA – Liberty Utilities
4. LA – Atmos Energy
5. LA – CenterPoint Energy
6. LA – Entergy
7. MS – Atmos Energy
8. MS – CenterPoint Energy
9. OK – CenterPoint Energy
10. OK – Oklahoma Natural Gas
11. SC – Piedmont Natural Gas
12. SC – South Carolina Electric and Gas
13. TX – Atmos Energy

APPENDIX B


Residential Weather Adjustments
$100.00
$80.00
$60.00
$40.00
$20.00
$-
$10.01 Average
Credit Adjustment
$93.28
$83.27
$79.61
$2.69 Average
Bill Adjustment
$31.58
$34.27
$35.26
Jan-13
Apr-13
Avg Bill w/o MWA
Weather Normalized
Authorized Bill

APPENDIX C

STANDARD
& POOR'S
RATINGS SERVICES

RatingsDirect®

Research Update:

Southwest Gas Corp. Corporate Credit Rating Raised To 'A-' On Effective Management; Outlook Stable

Primary Credit Analyst:
Michael T Ferguson, CFA, CPA, New York (1) 212-438-7670;
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Secondary Contact:
Gerrit W Jepsen, CFA, New York (1) 212-438-2529; gerrit_jepsen@standardandpoors.com

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Research Update:

Southwest Gas Corp. Corporate Credit Rating Raised To 'A-' On Effective Management; Outlook Stable

Overview

- Southwest Gas Corp. has effectively managed regulatory outcomes in Nevada, Arizona, and California.
- We are raising our corporate credit rating on Southwest Gas Corp. to 'A-' from 'BBB+'. The outlook is stable.
- The stable outlook reflects our expectation that Southwest will continue to manage its regulatory relationships effectively. Southwest's financial risk profile is suitable for the higher rating, and we expect management to continue to balance its investment and financial policy objectives in a manner that supports credit quality.

Rating Action

On March 19, 2013, Standard & Poor's Ratings Services raised its corporate credit rating on Southwest Gas Corp. to 'A-' from 'BBB+'. The rating outlook is stable.

Rationale

The upgrade reflects sustained improvements in cash flow and leverage measures; these are the byproducts of improved regulatory relations within the company's three service territories, and we expect that the company will continue to manage these relationships well and use relatively conservative financial policies to maintain its credit measures.

The company's business risk profile is "excellent". The Arizona Corporation Commission (ACC), the Public Utilities Commission of Nevada (PUCN), and the California Public Utilities Commission independently regulate Southwest Gas. Each commission provides the company with various cost-recovery mechanisms, including purchased gas-adjustment mechanisms, and a margin tracker balancing account in California, which mitigates margin volatility due to weather and other usage variations.

In our opinion, regulation in Arizona (historically considered one of the less credit-supportive jurisdictions) has improved substantially, as the ACC approved a decoupled rate design in Southwest Gas's latest rate case; this mechanism can significantly mitigate cash flow volatility. In December 2011, the ACC approved a rate increase of $52.6 million (of $73.2 million requested) based on a return on equity of 9.5%. The decoupled rate design provides for monthly weather normalization and a year-end annual true-up for nonweather variations in margins. In Nevada, Southwest Gas has a decoupled rate design that mitigates the effects of weather and customer conservation; a rate case resolved in the state in 2012 allowed the company a revenue increase of about $7.5 million between the northern and southern parts of the state, and the commission opened a rulemaking on infrastructure replacement in the state.

Southwest Gas's unregulated maintenance and construction subsidiary, Northern Pipeline Construction Co. (NPL), is a less significant rating factor, constituting about 15% of revenues during 2012. For 2013, we believe NPL will continue to report increased revenues and earnings because of pipe-replacement work related to multiyear infrastructure replacement programs, but that it will not grow materially as a percentage of the overall business. We rate the company's management as "satisfactory", reflecting its ability to achieve credit-supportive regulatory outcomes in a historically challenging jurisdiction and its efforts to maintain conservative financial policies.

The financial risk profile of Southwest Gas Corp. is "significant". Under our base-case forecast, we expect customer growth to be roughly 1% per year. This is down substantially from annual growth of roughly 5% per year from 2002 through 2006 and reflects high foreclosure rates and a slow economy that have persisted throughout its service territories. We also expect capital expenditures of about $320 million per year, on average, coupled with increasing dividend payouts. Our forecast for modest customer growth, the revenue from the Arizona rate case, and a margin contribution of about 15% from NPL, results in funds from operations (FFO) to debt of about 23.1% and total debt to capitalization of about 56.3% in 2013. For the year ended Dec. 31, 2012, the company had adjusted FFO to debt of 27%, with total debt to capital of about 54.7%.

Liquidity

We consider Southwest Gas' consolidated liquidity to be "adequate", with forecast sources divided by uses of about 1.2x for the next 12 months. The company is also exposed to intrayear working capital needs due to seasonal natural gas purchases. However, these working capital needs tend to peak at year-end, coinciding with the starting point of our liquidity calculation.

Southwest Gas is comfortably in compliance with its bank covenant requirement for debt to capital to be less than 70%. On Dec. 31, 2012, Southwest Gas has a significant cushion under this covenant.

Principal liquidity sources include credit line availability of $250 million over the next 12 months and FFO of $396 million over the next 12 months. Principal liquidity uses include debt maturities of $51 million over the next 12 months, capital spending of $320 million during the next 12 months, dividends of $61 million during the next 12 months.

Outlook

The stable rating outlook on Southwest Gas Corp. reflects the improved regulatory environment in the utility's Arizona service territory, the company's effective management, and our expectation that stable operating results and consistent financial policy objectives will support maintenance of the FFO to debt ratio near 24% and debt to capital about 55%.

We could consider raising the rating if the company consistently achieved FFO to debt that approaches 30% as a result of sustained customer growth in its service areas, which has been largely absent over the past several years. This could occur if regulatory jurisdictions offered more favorable outcomes or if debt levels were trimmed through a shift to more conservative financial policies.

We could lower the rating if regulatory risk increased in any of its service territories, the company increased its reliance on debt to finance capital spending, or customer usage and throughput decreased substantially without adequate regulatory relief; this may occur if economic recovery in the service territory stalled. If these factors resulted in FFO to debt of less than 20% or debt to capital of about 60%, a lower rating would be possible. We could also lower the rating if the company's unregulated businesses grew to represent a more significant portion of its revenues, or if customer growth accelerated rapidly in Arizona, resulting in severe regulatory lag due to the company's requirement to stay out of rate cases until 2017.

Related Criteria And Research

- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Ratings List

Upgraded

	To	From
Southwest Gas Corp.		
Corporate Credit Rating	A-/Stable/--	BBB+/Stable/--
Senior Unsecured	A-	BBB+

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

APPENDIX D

Moody's
INVESTORS SERVICE

Rating Action: Moody's upgrades Southwest Gas; Outlook stable

Global Credit Research - 31 Jan 2014

Approximately $1.3 Billion of Debt Affected

New York, January 31, 2014 -- Moody's Investors Service upgraded the senior unsecured rating of Southwest Gas Corporation (Southwest) to A3 from Baa1. This rating action completes our review of Southwest initiated on November 8, 2013. The outlook for Southwest is stable.

RATING RATIONALE

The primary driver of today's rating action was Moody's more favorable view of the relative credit supportiveness of the US regulatory environment, as detailed in our September 2013 Request for Comment titled "Proposed Refinements to the Regulated Utilities Rating Methodology and our Evolving View of US Utility Regulation."

Historically, Southwest has operated in more difficult than average jurisdictions of Arizona and Nevada. Nevertheless, there are signs of Southwest's regulatory environment becoming more credit supportive.

On December 13, 2011, the Arizona Corporation Commission authorized a $53 million rate increase (12.8%) and a full revenue decoupling mechanism in Arizona. We view the outcome of the this case positively from a credit perspective. After a rehearing on March 14, 2013, Southwest received approximately 30% of their request, or an $8 million rate increase, from a pair of rate cases in Nevada. Southwest also recently filed in California for an $11.6 million rate increase and expects new rates to be effective in the first quarter of 2014. The company now has some form of de-coupling and gas purchase adjustment mechanism in all three of its service territories, which will contribute towards sustained financial performances over the next several years.

WHAT COULD CHANGE RATING -- UP

If Southwest's service territory economy demonstrates a sustained recovery and if the ratio of Southwest's CFO (pre-w/c) to debt exceeds 24% on a sustained basis, an upgrade could be considered.

WHAT COULD CHANGE RATING -- DOWN

Negative rating pressure could result if the company experiences significant earnings and cash flow volatility such that there is a sustained deterioration of financial metrics to include the CFO (pre-w/c) to interest and debt to falling to below 4.0x and the high-teen's range, respectively, or if a more contentious regulatory environment emerges.

Ratings upgraded include:

Senior unsecured to A3 from Baa1

Senior unsecured MTN to (P) A3 from (P) Baa1

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in December 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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APPENDIX E

S&P CAPITAL IQ
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Research

Utility Regulatory Assessments For U.S. Investor-Owned Utilities

07-Jan-2014

In Standard & Poor's Ratings Services' commentary "**Assessing U.S. Investor-Owned Utility Regulatory Environments**," published on Jan. 7, 2014, on RatingsDirect, we discussed our views on what constitutes a credit-supportive regulatory climate in the U.S.

We use those factors to create assessments of the regulatory environments in jurisdictions that regulate the electric, gas, and water utilities that we rate. We base the assessments on quantitative and qualitative factors, focusing on four main categories: the stability of the basic regulatory paradigm employed in the jurisdiction, tariff-setting procedures, financial stability, and the political independence of the regulator.

The following table, which lists the jurisdictions in rank order, and map show our updated assessments of regulatory jurisdictions. Since the scale is now global and the categories are different, comparisons to the previous assessments are not valid.

Regulatory Jurisdictions For Investor-Owned Utilities In The U.S.

Strong	Strong/Adequate	Adequate	Adequate/Weak	Weak
U.S. (federal)	California	Hawaii		
Wisconsin	Georgia	Mississippi		
Florida	Louisiana			
Michigan	Minnesota			
Alabama	Oklahoma			
Iowa	Texas (RR Comm.)			
South Carolina	Vermont			
North Carolina	Pennsylvania			
Kentucky	Virginia			
Colorado	Oregon			
	Kansas			
	Tennessee			
	Nevada			
	Maine			
	Utah			
	Wyoming			
	Indiana			
	Arkansas			
	South Dakota			
	Arizona			
	North Dakota			
	Idaho			
	Nebraska			

New York

Illinois

Ohio

Massachusetts

New Jersey

West Virginia

Rhode Island

Delaware

Alaska

Missouri

Texas (PUC)

Connecticut

District of Columbia

Maryland

Washington

New Mexico

New Hampshire

Montana

Utility Regulatory Assessments—U.S. Investor-Owned Utilities

U.S. (federal) is "Strong" and District of Columbia is "Strong/Adequate."

Related Criteria And Research

Related Criteria

- **Criteria|Corporates|General: Corporate Methodology**, Nov. 19, 2013
- **Criteria|Corporates|Utilities: Key Credit Factors For The Regulated Utilities Industry**, Nov. 19, 2013

Related Research

- **Assessing U.S. Investor-Owned Utility Regulatory Environments**, Jan. 7, 2014

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[redacted]

APPENDIX F

SOUTHWEST GAS CORPORATION
ARIZONA JURISDICTION
2013 RESIDENTIAL USE PER CUSTOMER (in therms)
BY INSTALL YEARS

	2011-2013	2001-2010	1991-2000	1981-1990	1971-1980	up to 1970
Jan	64.1	81.1	86.2	62.2	84.8	81.6
Feb	46.5	60.4	65.5	51.4	65.8	60.7
Mar	36.1	44.8	47.4	39.9	53.5	45.7
Apr	17.5	21.7	20.3	17	16.2	20.8
May	13.4	16.4	15	13	12.6	15.8
Jun	10	12.3	11.4	10.5	10.4	11.9
Jul	8	9.8	9.4	8.8	9.1	9.6
Aug	7.9	9.5	9	8.3	8.7	9.4
Sep	8.1	9.9	9.4	8.5	9.3	9.7
Oct	11	12.6	11.6	10	9.9	12.2
Nov	15.5	18	16.5	14.3	14.5	17.4
Dec	35.7	44.1	46.4	34	42.8	43.7
Total	273.8	340.6	348.1	277.9	337.6	338.5

SOUTHWEST GAS CORPORATION
TOTAL ARIZONA: DISTRICTS 32 - 49
RESIDENTIAL GAS SERVICE G-5 SINGLE FAMILY
INSTALL YEAR 2011
JANUARY 2013 - DECEMBER 2013
WEATHER NORMALIZATION ADJUSTMENT

Month	Year	Actual Consumption Per Customer (Therms)	Weather Normalized Consumption Per Customer (Therms)	Normal Heating Degree Days (Cycle Billed)	Actual Heating Degree Days (Cycle Billed)	Billed Customers	Actual Sales Volumes (Therms)	Weather Normalized Sales Volumes (Therms)	Weather Normalization Adjustment (Therms)	HDD Coefficients
July	2013	8.2	8.2	0.0	0.0	5,995	49,115	49,115	0	
August	2013	8.1	8.1	0.0	0.0	5,997	48,717	48,717	0	
September	2013	8.5	8.5	0.0	0.0	5,998	50,691	50,691	0	
October	2013	11.6	11.6	1.5	1.0	6,010	69,869	69,869	0	
November	2013	17.0	18.3	26.0	16.5	6,042	102,685	110,732	8,047	0.140200
December	2013	36.2	37.5	220.5	210.5	6,061	219,282	227,349	8,067	0.133100
January	2013	66.8	52.0	343.5	445.0	6,045	403,928	314,102	(89,826)	0.146400
February	2013	48.9	45.8	274.0	295.0	6,053	296,021	277,005	(19,016)	0.149600
March	2013	38.5	36.0	173.0	189.0	6,056	233,185	218,302	(14,883)	0.153600
April	2013	19.8	26.1	52.0	16.5	6,048	120,015	157,674	37,659	0.175400
May	2013	14.8	15.8	9.5	4.5	6,012	88,989	95,049	6,060	0.201600
June	2013	10.8	10.8	0.5	0.0	6,005	64,619	64,619	0	
Total		289.2	278.7	1,100.5	1,178.0	72,322	1,747,116	1,683,224	(63,892)	

SOUTHWEST GAS CORPORATION
TOTAL ARIZONA: DISTRICTS 32 - 49
RESIDENTIAL GAS SERVICE G-5 SINGLE FAMILY
INSTALL YEAR 2012
JANUARY 2013 - DECEMBER 2013
WEATHER NORMALIZATION ADJUSTMENT

Month	Year	Actual Consumption Per Customer (Therms)	Weather Normalized Consumption Per Customer (Therms)	Normal Heating Degree Days (Cycle Billed)	Actual Heating Degree Days (Cycle Billed)	Billed Customers	Actual Sales Volumes (Therms)	Weather Normalized Sales Volumes (Therms)	Weather Normalization Adjustment (Therms)	HDD Coefficients
July	2013	8.4	8.4	0.0	0.0	8,643	72,270	72,270	0	
August	2013	8.2	8.2	0.0	0.0	8,647	71,331	71,331	0	
September	2013	8.5	8.5	0.0	0.0	8,642	73,769	73,769	0	
October	2013	11.4	11.4	1.5	1.0	8,654	98,657	98,657	0	
November	2013	16.1	17.4	26.0	16.5	8,673	139,667	151,219	11,552	0.140200
December	2013	37.1	38.4	220.5	210.5	8,701	322,545	334,126	11,581	0.133100
January	2013	62.5	47.7	343.5	445.0	7,871	492,168	375,208	(116,960)	0.146400
February	2013	45.8	42.7	274.0	295.0	8,316	380,980	354,854	(26,126)	0.149600
March	2013	36.5	34.1	173.0	189.0	8,532	311,806	290,838	(20,968)	0.153600
April	2013	17.4	23.6	52.0	16.5	8,593	149,629	203,135	53,506	0.175400
May	2013	13.8	14.8	9.5	4.5	8,614	118,955	127,638	8,683	0.201600
June	2013	10.3	10.3	0.5	0.0	8,626	88,878	88,878	0	
Total		276.0	265.5	1,100.5	1,178.0	102,512	2,320,655	2,241,923	(78,732)	

SOUTHWEST GAS CORPORATION
TOTAL ARIZONA: DISTRICTS 32 - 49
RESIDENTIAL GAS SERVICE G-5 SINGLE FAMILY
MINUS INSTALL YEARS 2011 & 2012
JANUARY 2013 - DECEMBER 2013
WEATHER NORMALIZATION ADJUSTMENT

Month	Year	Actual Consumption Per Customer (Therms)	Weather Normalized Consumption Per Customer (Therms)	Normal Heating Degree Days (Cycle Billed)	Actual Heating Degree Days (Cycle Billed)	Billed Customers	Actual Sales Volumes (Therms)	Weather Normalized Sales Volumes (Therms)	Weather Normalization Adjustment (Therms)	HDD Coefficients
July	2013	9.4	9.4	0.0	0.0	870,426	8,149,468	8,149,468	0	
August	2013	9.0	9.0	0.0	0.0	869,725	7,789,176	7,789,176	0	
September	2013	9.3	9.3	0.0	0.0	870,421	8,101,721	8,101,721	0	
October	2013	11.3	11.3	1.5	1.0	873,806	9,842,982	9,842,982	0	
November	2013	16.1	17.4	26.0	16.5	879,859	14,166,195	15,338,079	1,171,884	0.140200
December	2013	41.7	43.0	220.5	210.5	885,853	36,921,477	38,100,547	1,179,070	0.133100
January	2013	77.6	62.7	343.5	445.0	879,199	68,207,207	55,142,662	(13,064,545)	0.146400
February	2013	60.0	56.9	274.0	295.0	880,090	52,816,459	50,051,568	(2,764,891)	0.149600
March	2013	45.5	43.0	173.0	189.0	880,200	40,034,132	37,870,952	(2,163,180)	0.153600
April	2013	19.3	25.6	52.0	16.5	876,860	16,956,514	22,416,458	5,459,944	0.175400
May	2013	14.6	15.6	9.5	4.5	873,601	12,771,720	13,652,310	880,590	0.201600
June	2013	11.3	11.3	0.5	0.0	871,571	9,874,513	9,874,513	0	
Total		325.1	314.5	1,100.5	1,178.0	10,511,611	285,631,564	276,330,436	(9,301,128)	

APPENDIX G

SOUTHWEST GAS CORPORATION
ARIZONA
G5 - SINGLE FAMILY RESIDENTIAL CUSTOMERS
ACTUAL AND WEATHER NORMALIZED CONSUMPTION PER CUSTOMER
12-MONTH TOTALS
JANUARY 2002 - DECEMBER 2013

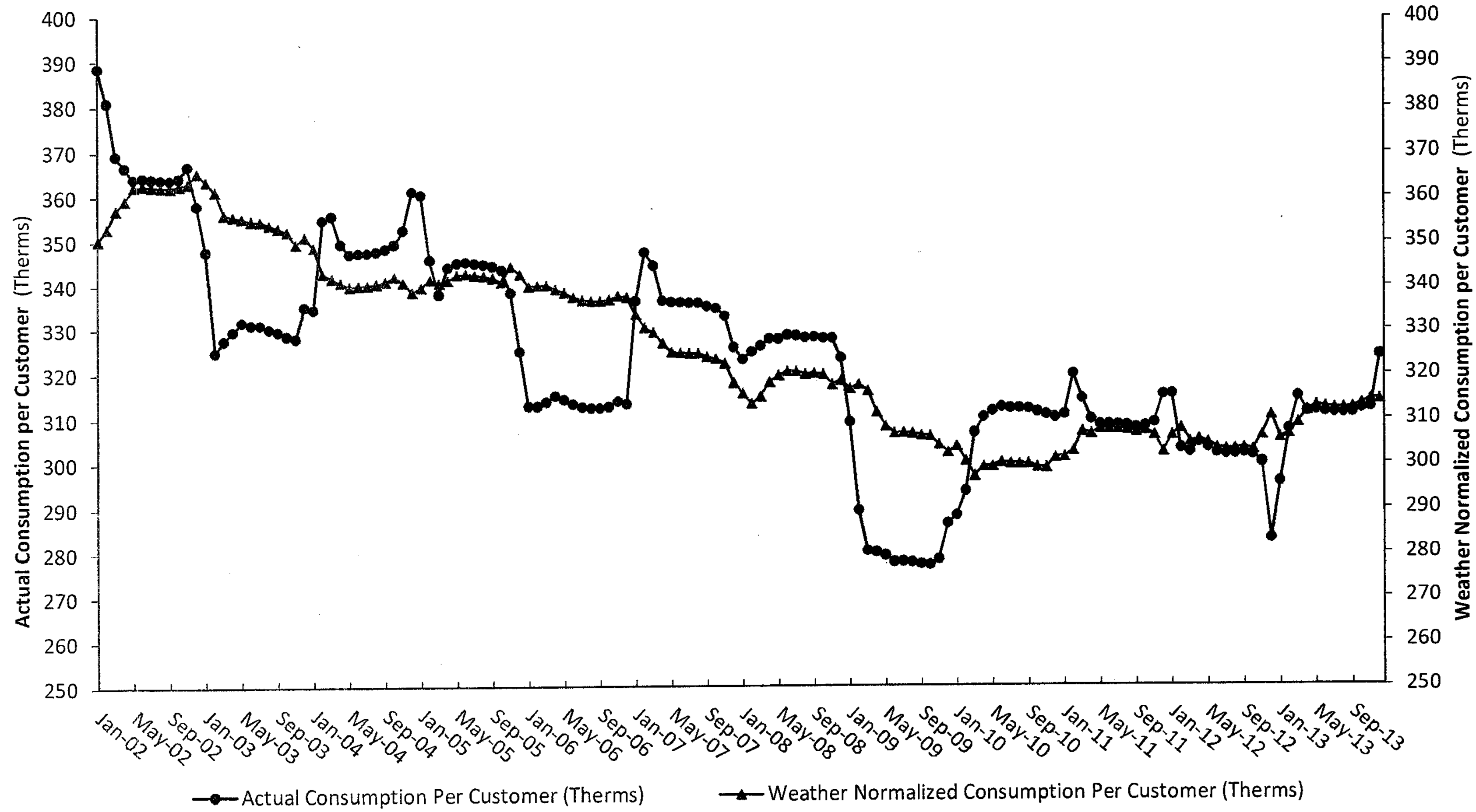

EXHIBIT 2

SOUTHWEST GAS CORPORATION
ARIZONA JURISDICTION
COMPUTATION OF ENERGY EFFICIENCY ENABLING PROVISION (EEP) RATE ADJUSTMENT

Line No.	Description (a)	Volumes (b)	Amount (c)	Line No.
	EEP Balancing Account			
1	Balance at December 31, 2013		$ (11,626,351)	1
	Applicable Therms [1]			
2	G-5 Residential	241,326,143		2
3	G-6 Multi-Family Residential	5,582,606		3
4	G-10 Low-Income Residential	9,877,626		4
5	G-11 Multi-Family Low-Income Residential	644,908		5
6	G-25(S) Small General Service	3,323,829		6
7	G-25(M) Medium General Service	40,982,330		7
8	G-25(L1) Large-1 General Service	101,387,073		8
9	G-25(L2) Large-2 General Service	32,460,534		9
10	All GTS Billed Volume	7,179,803		10
11	Total Therms	442,764,852		11
12	EEP Rate Adjustment Per Therm		$ (0.02626)	12

[1] Sales for the 12 months ended March 2014

EXHIBIT 3

SOUTWHEST GAS CORPORATION
ARIZONA
EARNINGS TEST CALCULATION
TWELVE MONTHS ENDED DECEMBER 31, 2013

Line No.	Description	Reference		Amount	Line No.
	(a)	(b)		(c)	
1	Fair Value Rate Base	Decision No. 72723	$	1,452,933,391	1
2	Fair Value Rate of Return	Decision No. 72723		6.92%	2
3	Operating Income Required	Ln 1 * Ln 2	$	100,542,991	3
4	Net Operating Income Available	Company Records		100,352,377	4
5	Earnings Deficit/(Excess)	Ln 3 - Ln 4	$	190,613	5
6	Gross Revenue Conversion Factor	Decision No. 72723		1.6579	6
7	Revenue Deficit/(Excess)	Ln 5 * Ln 6	$	316,018	7